



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Santa Cruz Valley Union High School District No. 840

As of March 9, 2006



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

Accounting Services Division Staff

Michael Stelpstra, Manager and Contact Person
mstelpstra@azauditor.gov

Roger Walter
Lacee Foreman

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General
2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.azauditor.gov



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

June 29, 2006

Governing Board
Santa Cruz Valley Union High School District No. 840
900 North Main Street
Eloy, AZ 85231-2040

Members of the Board:

In our October 28, 2005, compliance review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the year ended June 30, 2004. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of March 9, 2006. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

Based on the number and nature of the deficiencies noted in our status review and our review of the District's June 30, 2005, audit reports and USFR Compliance Questionnaire, which we received subsequent to the completion of our test work, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's noncompliance and requesting that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

TABLE OF CONTENTS



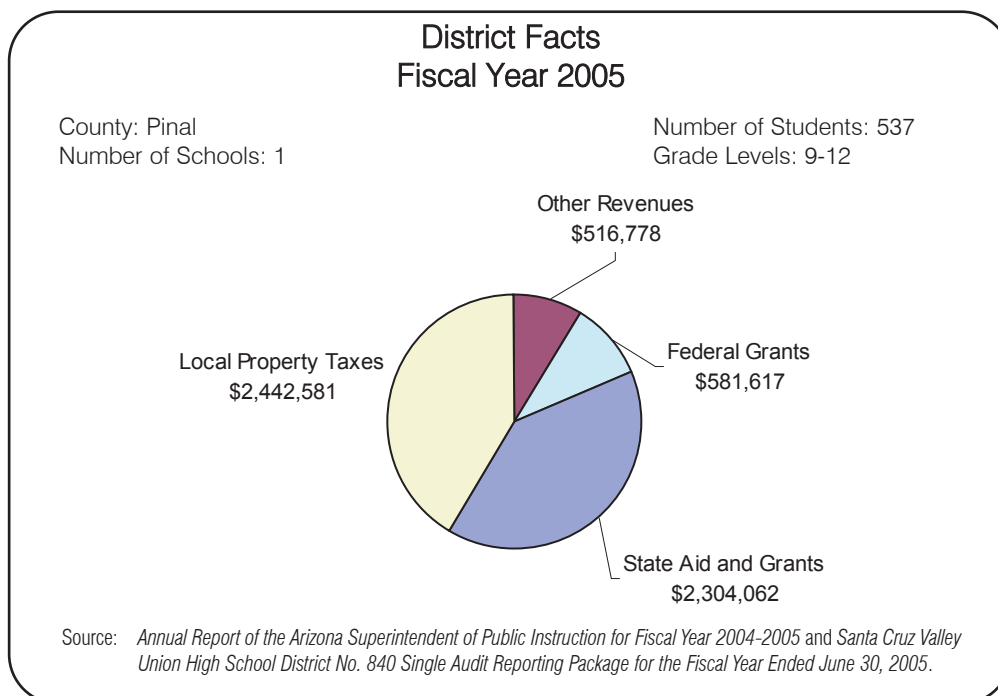
Introduction	1
Recommendation 1: The District should improve controls over cash receipts and bank accounts	2
Recommendation 2: The District's controls over student activities monies must be strengthened	3
Recommendation 3: The District should maintain accurate capital assets and stewardship lists	5
Recommendation 4: The District should ensure the accuracy of its accounting records, effectively monitor transactions, and retain supporting documentation	6
Recommendation 5: The District should strengthen controls over competitive purchasing and expenditures	8
Recommendation 6: The District should ensure the accuracy of its student attendance records	9

INTRODUCTION

Santa Cruz Valley Union High School District No. 840 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$5.8 million received in fiscal year 2005 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review and our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2005, we determined that the District failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District should improve controls over cash receipts and bank accounts

Poor cash controls left district and employee monies susceptible to loss, theft, or misuse.

The District receives monies from various sources, including food service sales, auxiliary operations, student activities, and employee insurance programs, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash, ensure that cash is promptly and accurately recorded and deposited in bank accounts, and ensure that bank accounts are used as authorized by statute. These controls require that the District document amounts received, deposit cash receipts in a timely manner, and issue checks for allowable purposes only. However, the District did not have adequate controls over its cash receipts and bank accounts. Specifically, the District did not always retain validated deposit slips for food service receipts deposited into the Food Service Fund clearing bank account, and amounts deposited were often higher than the amounts reported on the cashier's reports or the daily cash counts, which also did not agree. The District did not provide support for such higher amounts deposited. Also, the District did not deposit food service and auxiliary operations cash receipts into the appropriate bank accounts in a timely manner. In addition, the District did not remit receipts deposited in the Food Service Fund clearing bank account to the County Treasurer at least monthly and inappropriately paid a vendor from the clearing account.

Further, the District exceeded its \$5,000 authorized balance in the Maintenance and Operation (M&O) Fund revolving bank account, did not operate the account on an imprest basis, and did not always retain documentation to support disbursements from the account. Finally, the District inappropriately used the employee insurance bank account to pay employee mileage reimbursements, postage, and food.

Recommendations

To help strengthen controls over cash receipts and bank accounts, the District should perform the following procedures:

Food Service Fund clearing bank account

- Prepare daily cash collection reports to document sales and reconcile sales to cash collections. All differences should be investigated and corrected.
- Deposit food service receipts intact daily, when significant, or at least weekly into the Food Service Fund clearing bank account or directly with the County Treasurer.

- Verify that cash counts and the daily cash collection reports agree to the validated bank deposit slip. All differences should be investigated and corrected. Retain all supporting documents, including the validated bank deposit slips.
- Remit receipts deposited into the Food Service Fund clearing bank account to the County Treasurer weekly, or at least monthly, and make no other disbursements from the clearing account.

Auxiliary Operations Fund bank account

- Deposit auxiliary operations cash receipts intact daily, when significant, or at least weekly.

M&O Fund revolving bank account

- Retain documentation such as check requests, vendor invoices, and other documents to support disbursements.
- Operate the account on an imprest basis, which means that the check register balance plus invoices for checks issued from the account and bank charges should equal the authorized amount of \$5,000 at all times.

USFR page VI-C-4 describes revolving account disbursement and replenishment procedures.

Employee Insurance bank account

- Use the account only to pay insurance carriers or to make refunds of insurance payments to individuals in accordance with Arizona Revised Statutes (A.R.S.) §15-1223.

The District's controls over student activities monies must be strengthened

The District holds student activities monies raised through students' efforts for safekeeping. Therefore, the District has a fiduciary responsibility to ensure that these monies are not misused, lost, or stolen. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, proper oversight was not established. Specifically, cash-handling and recordkeeping responsibilities were not properly separated among employees as the same employee, who resigned immediately prior to our review, received cash receipts from the sponsors and students at the district office, deposited those receipts in the student activities bank account, and prepared the monthly student activities financial

Cash-handling and recordkeeping responsibilities for student activities monies were not properly separated among employees, resulting in the possible theft or misuse of student and district monies.

reports submitted to the Governing Board. Additionally, the reports submitted to the Governing Board for the months of November 2005 through January 2006 reported considerably higher cash balances than the bank balances in the student activities bank account. Further, the District was unable to provide bank reconciliations for the Student Activities Fund bank account for the months of November 2005 through January 2006.

In addition, sales at student activities' events were not always documented and reconciled to cash collections. Also, cash receipts were not prepared for cash received at the district office. Further, the District did not always have checks signed by two authorized signers, and there was no cash receipts and disbursements journal to record activity. Finally, the account was also used for auxiliary operations purposes because athletic event gate receipts were deposited into the account and checks were written from the account to pay for wrestling and soccer officials.

Recommendations

Due to the District's lack of controls and the numerous deficiencies that were noted concerning student activities during our status review, the District should investigate the possible loss, theft, or misuse of monies in the student activities account.

To strengthen controls over student activities monies, the District should establish and follow the policies and procedures listed below:

- Separate cash-handling and recordkeeping responsibilities between employees.
- Prepare prenumbered and numerically controlled cash receipt forms for all student activities monies received.
- Use cash collection reports to reconcile cash collected to sales at student activities events. For student activities events where it is not practical to use cash receipt forms, tickets, or inventory counts to track the items sold, such as for bake sales, cash collection reports should still be prepared to document cash collected.
- Verify that deposit amounts agree to supporting documentation, and retain a validated deposit slip for each deposit.
- Have checks signed by either the student activities treasurer or an assistant student activities treasurer, and a second signer authorized by the Governing Board.

- Maintain a cash receipts and disbursements journal to record all financial transactions.
- Have an employee not responsible for handling cash or issuing checks prepare monthly written bank reconciliations and ensure that they are signed and dated by the preparer and the reviewer.
- Use the Student Activities Fund only for monies raised by student effort in connection with activities of student organizations, clubs, school plays, or other student entertainment, as approved by the Governing Board. Monies raised in connection with school athletic activities should be deposited in the Auxiliary Operations Fund bank account.

Bank reconciliation procedures are outlined on USFR page VI-C-6.

The District should maintain accurate capital assets and stewardship lists

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, effective stewardship requires the District to have accurate lists of these assets to ensure they are properly identified and accounted for.

However, the District did not accomplish this objective. Specifically, items on the District's premises were not always included on the capital assets or stewardship lists, and the stewardship list included duplicate items and some assets that could not be located on the District's premises. Further, the District did not always tag or otherwise identify equipment, and the items' locations recorded on the lists did not always agree to the items' actual location.

The District did not effectively account for its capital assets as the capital assets and stewardship lists were incomplete and inaccurate, and some assets included on the lists could not be located on the District's premises.

In addition, the District's capital assets list did not always include the acquisition method, funding source, acquisition date, or purchase document numbers for each item, and the District was unable to provide documentation to support several assets' costs on the list. Also, the District's stewardship list did not always include each item's month and year of acquisition.

Finally, the District did not reconcile capital expenditures to capitalized acquisitions and the current year's capital assets list to the previous year's list.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describe the information that should be recorded on the capital assets and stewardship lists.

The form on USFR page VI-E-13 may be used to document the reconciliation of capital assets additions to capital expenditures.

Recommendations

The following procedures can help the District improve physical control over its capital assets and ensure that its capital assets and stewardship lists are accurate and complete:

- Maintain a detailed capital assets list that includes all equipment and vehicles costing \$1,000 or more with useful lives of 1 year or more, and all land, building, and related improvements costing \$1,000 or more, in accordance with district policy.
- Maintain a stewardship list that includes all district equipment and vehicles costing between \$300 and \$1,000, in accordance with district policy.
- Include all required information for all items on the capital assets and stewardship lists.
- Affix a tag with an identifying number to each equipment item costing \$300 or more, or specifically identify the item on the lists by some other means, such as a serial number. Tags should be prenumbered, numerically controlled, and issued sequentially.
- Retain cost documentation, such as purchase orders, receiving reports, and vendor invoices, to support information recorded on the capital assets list.
- Update the capital assets and stewardship lists at least annually for items acquired, disposed of, or moved to different locations.
- Reconcile items added to the capital assets list during the year to capital expenditures and the current year's capital assets list to the previous year's list, and make all necessary corrections.

The District should ensure the accuracy of its accounting records, effectively monitor transactions, and retain supporting documentation

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records, budget, and annual financial report (AFR) are accurate and complete, and that transactions are properly authorized. However, the District did not fully accomplish this objective. Specifically, the District did not prepare a year-end reconciliation of revenues and expenditures to the County School

Superintendent's (CSS) records for fiscal year 2005. In addition, the District's fiscal year 2005 originally adopted budget exceeded the proposed budget, and the adopted budget did not include all available resources for the Classroom Site Funds. Also, budgeted expenditures and actual amounts reported on the District's 2005 AFR did not agree to its revised expenditure budget and accounting records.

Additionally, the District did not always ensure that sufficient cash or budget balance, as applicable, was available before approving expenditures. As a result, the District had negative cash balances in numerous cash-controlled funds during fiscal year 2006, including the Food Service Fund, and budget capacity was exceeded in two budget-controlled funds in fiscal year 2005. The District did not provide documentation of any reimbursements due from the National School Lunch Program that may decrease the deficit cash balance in the Food Service Fund. Also, the District did not ensure that journal entries were approved before posting them in the accounting records, and supporting documentation for the entries was not always retained.

The District's Food Service Fund had a negative cash balance of more than \$150,000 at January 31, 2006.

Further, the amount included on the District's expenditure budget work sheet for handicapped extended school year miles did not agree to the Transportation Route Report, and documentation was not retained to support amounts on the report. Finally, the District did not always ensure that timecards and addendums to employee contracts were signed by the employee, or that the addendums were reviewed and approved by the Superintendent and the Governing Board.

Recommendations

The following policies and procedures can help the District record and report accurate financial information:

- Reconcile records of revenues, expenditures, and cash balances by fund, program, function, and object code at least at fiscal year-end to the CSS' records. Investigate all reconciling items and make any necessary corrections.
- Verify that the budget for adoption does not exceed the proposed budget.
- Carry forward the unexpended budget balances for each of the three Classroom Site Funds to the following year's budget in accordance with A.R.S. §15-978.
- Update accounting records for all revenues and expenditures before preparing the AFR. Once prepared, have a second employee verify that amounts reported on the AFR agree with the District's expenditure budget and accounting records before the AFR is submitted to ADE.

USFR pages VI-B-8 through 10 include reconciliation procedures.

- Verify that sufficient cash or budget capacity, as applicable, is available in a fund before authorizing expenditures.
- Require a supervisor to review and approve journal entries before they are posted to the accounting records. Retain documentation for all journal entries, including evidence of authorization.
- Ensure that the amount included for handicapped extended school year miles on the expenditure budget work sheet D agrees to the prior year's Transportation Route Report.
- Prepare and retain documentation to support the information required on the Transportation Route Report, such as the number of routes, route miles traveled, eligible students transported, and handicapped extended school year miles.
- Ensure that employees sign timecards and addendums to their contracts, and that the Superintendent and Governing Board review and approve the addendums.

The District should strengthen controls over competitive purchasing and expenditures

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the procurement rules and the USFR guidelines. For example, the District was unable to provide complete documentation for competitive sealed bids and did not obtain oral or written price quotations for all purchases that required them. In addition, the District improperly processed expenditures before goods and services were received. Also, the District did not always perform mathematical accuracy checks on vendor invoices and made duplicate bus lease payments since it did not cancel invoices when paid.

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

Recommendations

To strengthen controls over competitive purchasing and expenditures, and to comply with School District Procurement Rules and USFR guidelines, the District should perform the following:

- Determine whether to request oral or written price quotations or issue invitations for bids or requests for proposals by analyzing the quantities required for an item or collection of items that, individually or in the aggregate, may result in purchases above the competitive purchasing thresholds.
- Issue invitations for bids or requests for proposals, as appropriate, for purchases of construction, materials, or services that, individually or in the aggregate, exceed \$33,689.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Process expenditures only after goods and services are received unless prepayment is necessary to obtain the goods or services or to receive a discounted price.
- Verify the mathematical accuracy of vendor invoices, and initial and date the invoices as evidence of the check.
- Cancel vendor invoices and other documentation by stamping them paid after payment, and recording the voucher and check number, amount, and date paid on the invoice to prevent duplicate payments.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

The District should ensure the accuracy of its student attendance records

The State provides funding to school districts based on membership and absences. In turn, accurate attendance records are essential to ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District did not properly record partial-day absences. In addition, student entry forms were not always complete or retained. Also, the District did not maintain adequate records to determine if students with ten consecutive unexcused absences were withdrawn correctly.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should record and report membership and absences in accordance with ADE's *Instructions for Required Reports*. The District should complete and retain entry forms and have a second employee verify that entry dates in the attendance system agree with the entry forms. Also, the District should retain absence records and withdraw students with ten consecutive unexcused absences so that these students are only counted in membership through the last day of attendance.